S
353.39
L72SRY
1982

PLEASE RETURN

STATE DOCUMENTS COLLECTION

MAY 2 4 1983

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

State of Montana

Report to the Legislature

SWAN RIVER YOUTH FOREST CAMP

Report on the Examination of
Financial Statements

Two Fiscal Years Ended June 30, 1982

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

Montana State Library
3 0864 1003 7117 1

State of Montana

Report to the Legislature

SWAN RIVER YOUTH FOREST CAMP

Report on the Examination of
Financial Statements

Two Fiscal Years Ended June 30, 1982

82-28

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

Digitized by the Internet Archive
in 2010 with funding from
Montana State Library

http://www.archive.org/details/stateofmontanade1982mont

TABLE OF CONTENTS

	Page
Administrative Officials	iii
Summary of Recommendations	iv
General	1
Non-Treasury Bank Account	2
Custodial Non-Treasury Account, Commingled State Funds and Agency Funds	2
Revenue Used to Replenish Non-Treasury Account and Circumvent Appropriations	4
Employee Housing	5
Federal Grants	7
Introduction	7
Unallowable Meal Reimbursements	8
Property, Plant, and Equipment	9
Building and Improvements	9
Equipment Safeguards	10
Inter-Entity Loans	11
Improper Recognition of Revenue	12
Census Reports Documentation	13
Internal Control	14
Control Weaknesses	16
Cash Sales	16
Resident Accounts	17
Prior Audit Recommendations	18
Auditor's Report and Financial Statements	
Auditor's Report	19
Combined Balance Sheet, All Fund Types and Account Groups, June 30, 1982	21

TABLE OF CONTENTS (Continued)

	Page
Combined Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Fund Types for Fiscal Year Ended June 30, 1981	22
Combined Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Fund Types for Fiscal Year Ended June 30, 1982	23
Notes to the Financial Statements	24
Schedule of Federal Subgrants	29
Agency Responses	
Department of Institutions	30
Department of Administration	33

ADMINISTRATIVE OFFICIALS

DEPARTMENT OF INSTITUTIONS

Carroll South	Director
Curt Chisholm	Deputy Director
James Haubein	Administrator Management Services Division

SWAN RIVER YOUTH FOREST CAMP

Melvin R. Mohler	Superintendent
Gerald E. Underwood	Assistant Superintendent
Donald Huwe	Director of Counseling

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Swan River Youth Forest Camp and the Department of Administration are included in the back of this report.

		Page
1	The Department of Administration approve custodian accounts only for non state moneys.	3
Department of Administration Reply: Concur. See page 33.		
2	Obtain Department of Administration approval for state funds held outside the treasury.	3
Agency Reply: Concur. See page 31.		
3A	Deposit all state revenues in the state treasury on a timely basis.	5
Agency Reply: Concur. See page 31.		
3B	Establish a contingent revolving fund and replenish it only by treasury warrant.	5
Agency Reply: Concur. See page 31.		
3C	Budget and obtain appropriation authority for all expenditures of state funds.	5
Agency Reply: Concur. See page 31.		
4A	Follow Department of Institutions' Housing policy and obtain a written lease agreement from each employee.	7
Agency Reply: Concur. See page 31.		

		Page
4B	Charge a fair market value rent for the trailer spaces allowing for appropriate rental discounts for services provided.	7
Agency Reply:	Do not concur. See page 31.	
4C	Install electric meters at each trailer pad and charge tenants for electricity.	7
Agency Reply:	Partially concur. See page 31.	
5A	Review prior school foods reimbursement billings and return unallowable reimbursement.	9
Agency Reply:	Concur. See page 32.	
5B	Exclude residents who have passed the GED from future school lunch and breakfast billings.	9
Agency Reply:	Concur. See page 32.	
6	Properly classify and record buldings, improvements, and construction in progress on its property accounting records.	10
Agency Reply:	Concur. See page 32.	
7	Establish adequate physical and accounting controls over equipment.	11
Agency Reply:	Concur. See page 32.	
8	Establish inter-entity loans when the special revenue fund has insufficient cash to pay for reimbursable expenditures.	12
Agency Reply:	Concur. See page 32.	
9	Recognize revenue in accordance with generally accepted accounting principles.	13
Agency Reply:	Concur. See page 32.	
10	Retain the daily population lists to support their report census figures.	14
Agency Reply:	Concur. See page 32.	

		Page
11A	Reconcile cash collected in the canteen and at the clothing store to the appropriate log.	17
	Agency Reply: Concur. See page 32.	
11B	Ensure the canteen/clothing store manager receives a receipt each time money is deposited.	17
	Agency Reply: Concur. See page 32.	
11C	Obtain and retain a resident purchase order and a vendor's invoice for each disbursement from the resident's account.	17
	Agency Reply: Concur. See page 32.	
11D	Retain resident clothing cards until after the period has been audited.	18
	Agency Reply: Concur. See page 32.	

GENERAL

We performed a financial/compliance audit of the Swan River Youth Forest Camp for fiscal years 1980-81 and 1981-82. The objectives of the audit were to: 1) determine if the camp's financial statements present fairly its financial position and results of operations for the two fiscal years ending June 30, 1982; 2) determine if the camp complied with applicable laws and regulations; and 3) make recommendations for improvements in the management and internal controls of the camp.

The Swan River Youth Forest Camp is a minimum security adult corrections facility operating under the direction and supervision of the Department of Institutions. It is a current Department of Institutions' policy that the youth camp have custody of offenders between the ages of 18 and 25 who have been transferred from the state prison with the warden's approval. The youth camp's functions and responsibilities are to: 1) provide adequate care and custody and effective counseling and supervision of the residents; and 2) return the residents to society as productive, well-adjusted, self-reliant individuals capable of making proper decisions and functioning without difficulty in the community. The residents work with the forestry division of the Department of State Lands in a variety of forestry projects. In addition, the residents gain experience in carpentry and mechanics. Educational programs are available to aid residents in passing the High School Equivalency Examination and obtaining drivers licenses. The average daily population at the camp during fiscal year 1981-82 was 50 residents which is capacity.

We thank the superintendent and his staff for their cooperation and assistance during the audit.

In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendations in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

NON-TREASURY BANK ACCOUNT

We reviewed the non-treasury bank account at the Swan River Youth Forest Camp. The account is a checking account which is maintained at a local bank. The cash balance of the account varies between $9,500 and $12,000. State moneys and moneys held for custodial purposes were commingled in the account. The account was approved as a custodial account.

State revenues deposited directly to the non-treasury account were used to finance expenditures which circumvented the legislative appropriation process.

The following sections discuss these problems in more detail.

Custodial Non-Treasury Account, Commingled State Funds and Agency Funds

In 1975 the camp obtained Department of Administration approval for a non-treasury account. The account was approved as a custodian account with a maximum balance of $5,000. State policy explains that custodial accounts are moneys which are held for the benefit of individuals under the care of the agency and are not to be used to support agency operations.

The approval authorized the following state funds to be deposited in the custodian fund account: 1) canteen, 2) craft, 3) gifts and donations, 4) clothing, and 5) housing and maintenance.

The custodial moneys in the account are the resident account moneys and boxing club moneys. Section 17-2-202, MCA, requires that only agency funds be retained in a custodian fund account. The inclusion of the state funds in this account is incorrect.

If the camp has a need to make immediate cash payments from state funds it should obtain approval from the Department of Administration to establish a contingent revolving fund. Section 17-2-102, MCA, provides for the establishment of contingent revolving funds, a checking account, from state moneys. It states, in part, that a contingent revolving account may be used to make payments of demands requiring immediate cash payment. Contingent revolving accounts must be reimbursed from the state treasury by state warrant. All state moneys should be deposited in the state treasury.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION APPROVE CUSTODIAN ACCOUNTS ONLY FOR NON STATE MONEYS.

RECOMMENDATION #2

WE RECOMMEND THE CAMP OBTAIN DEPARTMENT OF ADMINISTRATION APPROVAL FOR STATE FUNDS HELD OUTSIDE THE TREASURY.

Revenue Used to Replenish Non-Treasury Account and Circumvent Appropriations

The camp deposited the state revenue from the sale of canteen items, craft items, clothing, meal reimbursement, and gifts and donations in the non-treasury account.

The clothing and meal reimbursement revenues are periodically transferred to the state treasury. The remaining revenue, from the sale of canteen and craft items and gifts and donations, was used to finance expenditures which are neither recorded on the states accounting system nor charged to an appropriation.

State law requires that all state revenues be deposited with the state treasurer on a timely basis, and prohibits the deposit of state revenues in non-treasury bank accounts. State policy requires that non-treasury revolving accounts be replenished only by a payment from the state treasury.

Expenditures financed by this revenue were $19,091 for fiscal year 1980-81 and $22,098 for fiscal year 1981-82. These expenditures, which were mainly for the purchase of resale items, should be budgeted and the expenditures should be recorded in the statewide accounting system. Since the camp did not budget or obtain appropriation authority for these operating expenditures, it exceeded its appropriation authority by $9,541 in fiscal year 1980-81 and $9,563 for fiscal year 1981-82.

Section 17-8-103, MCA, states, in part, that "it is the duty of all such institutions . . . to keep such expenditures, obligations, and liabilities within the amount of such legislative appropriation or authorized budget amendment." Institution personnel indicated that these funds have historically been held in the non-treasury account and had not been budgeted.

RECOMMENDATION #3

WE RECOMMEND THE CAMP:

A. DEPOSIT ALL STATE REVENUES IN THE STATE TREASURY ON A TIMELY BASIS.

B. ESTABLISH A CONTINGENT REVOLVING FUND AND REPLENISH IT ONLY BY TREASURY WARRANT.

C. BUDGET AND OBTAIN APPROPRIATION AUTHORITY FOR ALL EXPENDITURES OF STATE FUNDS.

EMPLOYEE HOUSING

The camp does not charge tenants of its trailer court lot rent or utility costs. The youth camp has an unwritten agreement that the trailer court tenants receive this benefit because they are on call in case of emergency. The camp provides a trailer pad, water, sewer service, and electricity for each trailer spot. We determined that all of the trailers were electrically heated, although some of the trailers also had wood heat.

The appropriation bill (House Bill 483) enacted by the 1979 Legislature directed the Department of Institutions to implement a realistic rental policy to ensure that rental rates charged to institutional employees living in state housing reflect increasing costs to the state.

During our audit period Department of Institutions had a housing policy which stated that all employees renting state housing shall enter into a written lease agreement. The policy required that institutions have rental charges which: 1) recapture utility costs, 2) recapture maintenance costs, and 3) were based upon

fair market value to prevent undue competition with private housing and prevent subsidizing employee rents or wages.

The department director stated that the department is currently revising its housing policy to recover operating costs and not reflect fair market value. The camp is not complying with the policy in effect during our audit or the proposed policy because it charges nothing for lot rent or utilities used by tenants.

The youth camp's trailer court had approximately six lots occupied at all times during our audit period. A private trailer court located twelve miles north of the camp in the Swan Valley had nine empty trailer lots, which each rent for $75 per month. If the camp charged a rate equal to the private court, it would recover approximately $5,400 each fiscal year.

The camp director stated that the private trailer court was not suitable for year-round accommodations because of pipes freezing in the winter. We contacted the owner of the trailer court, who stated that there had been a tenant this past winter and if trailers were properly skirted there would be no problem.

Since the camp's trailer court did not have separate electric meters we were unable to determine a dollar amount of utility costs currently being paid by the camp for the trailer tenants. The local electric company stated that it would cost approximately $35 to place an electric meter on each pad so the camp could charge tenants for their private electricity use. Institution personnel expressed a concern that if they bill for electricity they would be considered a public utility. It is our opinion that the state would not be considered a public utility as defined in section 69-3-101, MCA, because the state is not in the business of providing utilities.

Recharging utility expenses incurred is incidental to the camp operation.

RECOMMENDATION #4

WE RECOMMEND THE CAMP:

A. FOLLOW DEPARTMENT OF INSTITUTIONS' HOUSING POLICY AND OBTAIN A WRITTEN LEASE AGREEMENT FROM EACH EMPLOYEE.

B. CHARGE A FAIR MARKET VALUE RENT FOR THE TRAILER SPACES ALLOWING FOR APPROPRIATE RENTAL DISCOUNTS FOR SERVICES PROVIDED.

C. INSTALL ELECTRIC METERS AT EACH TRAILER PAD AND CHARGE TENANTS FOR ELECTRICITY.

FEDERAL GRANTS

Introduction

Our audit of federal moneys was performed in accordance with the requirements of the U.S. Office of Management and Budget, "Circular A-102, Attachment P." This circular provides for audits of financial operations, including compliance with certain provisions of federal law and regulations.

Swan River Youth Camp was a subgrantee receiving federal funds from the federal agencies listed on page 28. We reviewed the major compliance areas in the Title 1 Subgrant, the School Food Subgrants, and the Handicapped Program Grant. Areas reviewed included:

1. eligibility determination,
2. specific grant provisions, and
3. cost allowability.

During our review we noted compliance problems in unallowable school breakfasts and lunches being claimed for reimbursement. This is discussed in the following section. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Unallowable Meal Reimbursements

The camp has been billing the school lunch and breakfast program for all residents under the age of 21. This federal grant, which is subgranted to the camp from the Office of Public Instruction, states that all institutionalized youth under the age of 21 who have not received a high school diploma or its equivalent and are enrolled in an educational program are eligible for free or reduced price school breakfasts and lunches. Camp officials were unaware that persons under 21 who had passed the GED were ineligible. Throughout our audit period the camp has claimed lunch and breakfast reimbursement for residents under the age of 21 after they pass the high school equivalency exam (GED).

We tested a sample of ten residents under the age of 21 and determined that five had passed the GED. We reviewed a six-month period for the ten residents and determined the camp received reimbursement for 516 breakfasts and 516 lunches which should not have been reimbursed. Therefore, reimbursement of at least $966.21 is unallowable. Unallowable costs are calculated as follows:

516	breakfasts	X $.7225	reimbursement rate =	$372.81
516	lunches	X $1.15	reimbursement rate =	$593.40
1,032	total meals		unallowable cost	$966.21

We did not determine total unallowable costs for the audit period or prior years.

Personnel at the Office of Public Instruction stated they were unaware that the camp was claiming reimbursement for residents who had passed the GED. They indicated that the billings could be reviewed and an adjustment made to future reimbursements.

RECOMMENDATION #5

WE RECOMMEND THE CAMP:

A. REVIEW PRIOR SCHOOL FOODS REIMBURSEMENT BILLINGS AND RETURN UNALLOWABLE REIMBURSEMENT.

B. EXCLUDE RESIDENTS WHO HAVE PASSED THE GED FROM FUTURE SCHOOL LUNCH AND BREAKFAST BILLINGS.

PROPERTY, PLANT, AND EQUIPMENT

At June 30, 1982 the camp had approximately $745,000 in general fixed assets comprised of buildings, equipment, other improvements and construction in progress. The camp does not have an adequate system to record fixed assets.

Building and Improvements

Buildings were understated by $49,906 and improvements were overstated by $9,109 on the manual fixed asset records at June 30, 1982 as a result of the camp incorrectly classifying additions, improvements, and repairs and maintenance. In addition, the camp did not record $43,193 of construction in progress on its accounting

records as required by state policy. The financial statements have been adjusted to reflect the correct amount of buildings, improvements, and construction in progress at June 30, 1982.

State policy provides criteria to accurately segregate and account for additions, improvements, extraordinary repairs, and construction in progress. The camp should review the applicable policies and correctly classify and record these items.

RECOMMENDATION #6

WE RECOMMEND THE CAMP PROPERLY CLASSIFY AND RECORD BUILDINGS, IMPROVEMENTS, AND CONSTRUCTION IN PROGRESS ON ITS PROPERTY ACCOUNTING RECORDS.

Equipment Safeguards

State policy requires equipment be tagged, obsolete items be disposed, equipment be recorded on a general ledger, responsibility for equipment be assigned, and trade-ins be correctly valued. We determined that the camp is not complying with this policy. Problems noted were:

1. Five of the thirty equipment items observed were not properly tagged;

2. The camp does not have an adequate disposal plan for obsolete items. We noted 10 items which were obsolete or broken with an acquisition cost of $2,885. These items should be removed from the camp's inventory records and disposed of in accordance with state policy.

3. We noted six items which were tagged, but no inventory card had been maintained on the piece of equipment. These items were, therefore, not included in the reported equipment value causing an understatement of $7,024.

4. There is no general ledger control over equipment. Although the camp maintains a manual equipment asset card for each equipment item with the asset card system updated as equipment is purchased or deleted, the total equipment balance recorded on the accounting system is not updated for additions and deletions.

5. Responsibility is not assigned for equipment. Due to the fact that some equipment is shared with forestry personnel, joint responsibility may need to be assigned.

6. When valuing a new item the camp does not include the value of trade-in in the cost. We noted five items that were not valued at cost plus trade-in value.

The camp should correct the internal control weaknesses noted above for equipment in order to adequately safeguard and provide control over assets.

RECOMMENDATION #7

WE RECOMMEND THE CAMP ESTABLISH ADEQUATE PHYSICAL AND ACCOUNTING CONTROLS OVER EQUIPMENT.

INTER-ENTITY LOANS

During our audit period we noted several instances where the camp recorded and paid Special Revenue Fund expenditures out of its General Fund. As the camp received federal reimbursements, which were deposited in the Special Revenue Fund, they transferred expenditures from the General Fund to the Special Revenue Fund. Through this procedure the camp loaned General Fund money to the Special Revenue Fund without recording the loan. At fiscal year-end 1981-82, because some expenditures had not yet been transferred, expenditures in the General Fund and Special Revenue Fund were overstated and understated by $1,360, respectively.

To eliminate the necessity of incorrectly recording reimbursable expenditures in the General Fund and then correcting these entries when reimbursements are received, the camp should record these transactions in the Special Revenue Fund as expenditures are incurred. If the camp does not have cash available in the Special Revenue Fund when an expenditure is incurred an inter-entity loan from the General Fund should be established and correctly recorded on the accounting system. As the camp receives the federal reimbursement the inter-entity loans could be repaid. The establishment of the loans would allow the camp to initially record the expenditure correctly and avoid the necessity of transferring expenditures as money is received.

RECOMMENDATION #8

WE RECOMMEND THE CAMP ESTABLISH INTER-ENTITY LOANS WHEN THE SPECIAL REVENUE FUND HAS INSUFFICIENT CASH TO PAY FOR REIMBURSABLE EXPENDITURES.

IMPROPER RECOGNITION OF REVENUE

We noted several instances where the camp failed to recognize revenue in the year in which it was earned. The camp did not accrue revenue or set up a receivable for the June 1980 and 1981 federal prisoner housing reimbursements earned, grant revenue earned in 1980-81, and clothing revenue not transferred by fiscal year-end 1979-80 and 1980-81. The camp did accrue the federal boarder billing for June of fiscal year 1981-82, however, when the

revenue was received the accrual was not reduced and the receivable was not eliminated. The camp failed to defer unearned grant revenue recognized in 1981-82. The camp should recognize revenue in the year it is earned.

RECOMMENDATION #9

WE RECOMMEND THE CAMP RECOGNIZE REVENUE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

CENSUS REPORTS DOCUMENTATION

The Legislature uses census or population figures as a key budgetary item in fiscal analysis. The camp's primary documentation to support their reported census figures is a daily report called a population list. Each day the population list is completed by the cottage supervisor. The population list shows whether an individual resident is in the camp, on leave, AWOL, or in a local jail. These reports are also used to update the Offender-Based State Corrections Information System (OBSCIS).

We noted that for the six months ending June 30, 1982, an average of eight daily population sheets per month could not be located. The camp should maintain complete population documentation to support its census reports. Through alternative methods, we were able to determine that the census figures reported by the camp were reasonable.

RECOMMENDATION #10

WE RECOMMEND THE CAMP RETAIN THE DAILY POPULATION LISTS TO SUPPORT THEIR REPORTED CENSUS FIGURES.

INTERNAL CONTROL

We have examined the financial statements of the Swan River Youth Camp for the two fiscal years ended June 30, 1982. We issued our opinion dated November 5, 1982 on these statements. As part of our examination, we made a study and evaluation of the system of control of the camp. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/receivables;
2. payroll;
3. expenditures/payables;
4. cash;
5. resident accounts/non-treasury account;
6. plant, property, and equipment; and
7. inventories.

We evaluated controls over payroll; cash; resident accounts/non-treasury account; and plant, property, and equipment. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to revenue/receivables and expenditures/payables because the audit could be performed more efficiently by expanding substantive audit work. We did not rely on controls over inventory because adequate

controls did not exist. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the camp is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the camp. However, our study disclosed conditions that indicate internal control weaknesses. These conditions relating to cash sales; resident accounts; cash; and plant, property, and equipment are discussed on pages 9, 10, 15, and 16.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements.

This report on internal control does not affect our opinion on the financial statements.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Control Weaknesses

We identified the following internal control weaknesses, not disclosed in other report sections, which warrant management's attention.

Cash Sales

The camp has cash sales when goods are sold to camp employees and visitors. We reviewed six cash sales receipts and noted two instances where the dollar value recorded on the receipt was more than the amount of cash sales recorded in the canteen or clothing cash sale log. To ensure that the cash receipted in the business office is supported by the canteen or clothing store logs the following procedure should be used:

1. The manager of the canteen/clothing store should reconcile the money on hand to his cash log as deposits are made. Overages and shortages should be noted in the log.

2. Each time the canteen/clothing store manager makes a deposit to the business office he should receive a receipt; and

3. The receipt should equal the reconciled amount recorded in the canteen/clothing store log.

Resident Accounts

The camp follows a policy that before a resident's money can be given to a vendor outside the camp, the resident must sign a purchase order allowing for the use of his funds. Each purchase is to be supported by an invoice from the vendor. We tested 15 disbursements from the residents' accounts to outside vendors and determined four were not adequately supported. Due to the sensitivity of the resident accounts, it is important that both a resident purchase order and a vendor's invoice be retained for all disbursements.

Resident purchases of clothing from the camp are recorded on a card which details the resident's purchases. We were unable to locate the clothing cards for several residents who were discharged during our audit period. The cards should be retained to substantiate transfers made from the resident's accounts to the clothing account.

RECOMMENDATION #11

WE RECOMMEND THE CAMP:

A. RECONCILE CASH COLLECTED IN THE CANTEEN AND AT THE CLOTHING STORE TO THE APPROPRIATE LOG.

B. ENSURE THE CANTEEN/CLOTHING STORE MANAGER RECEIVES A RECEIPT EACH TIME MONEY IS DEPOSITED.

C. OBTAIN AND RETAIN A RESIDENT PURCHASE ORDER AND A VENDOR'S INVOICE FOR EACH DISBURSEMENT FROM THE RESIDENT'S ACCOUNT.

D. RETAIN RESIDENT CLOTHING CARDS UNTIL AFTER THE PERIOD HAS BEEN AUDITED.

PRIOR AUDIT RECOMMENDATIONS

The 1980 audit of Swan River Youth Forest Camp was performed under contract with our office. This report contained 18 recommendations still applicable to the camp. The camp concurred with all recommendations. Of the 18 recommendations, the camp implemented 9, partially implemented 4, and dic not implement 5. Discussions of those recommendations still applicable to the camp but not implemented include plant, property and equipment controls (page 10); non-treasury cash funds (page 2); and cash receipts (page 15).

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS
SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the combined financial statements of the various funds and account groups of the Swan River Youth Forest Camp as presented on pages 21 through 28 as of and for each of the two fiscal years ended June 30, 1982. Our examination was made in accordance with generally accepted government auditing standards for financial compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to in paragraph one present fairly the financial position of such funds and account groups of the Swan River Youth Forest Camp as of June 30, 1982 and the results of operations and the changes in fund balance of such funds for the two fiscal years then ended, in conformity with generally accepted accounting principles which, except for the method of classifying funds as described in Note 1A, with which we concur, have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Federal Grant Receipts is presented for

additional analysis and disclosure purposes in compliance with "Guidelines for Financial and Compliance Audits of Federally Assisted Programs" and is not a required part of the combined financial statements for the Swan River Youth Forest Camp. The schedule has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

November 5, 1982

Approved:

Robert R. Ringwood
Legislative Auditor

SWAN RIVER YOUTH FOREST CAMP
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1982

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS
	General Fund	Special Revenue Fund	Agency Fund	General Fixed Assets Group of Accounts
ASSETS				
Cash		$35,577	$4,546	
Accounts Receivable	$ 2,131	3,572		
Federal Cost Reimbursement Receivable		4,120		
Merchandise Inventory	15,620	34,862		
Land				$ 520
Buildings				457,144
Equipment				211,094
Other Improvements				33,457
Construction in Progress				43,193
Available to Pay Current Liabilities	40,905			
Total Assets	$58,656	$78,131	$4,546	$745,408
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	$35,348	$ 5,571		
Accrued Expenditures and Withdrawals	5,557	186		
Due to General Fund	2,131			
Accountability for Property Held In Trust			$4,546	
Total Liabilities	43,036	5,757	4,546	$ -0-
Fund Equity				
Investment General Fixed Assets				745,408
Fund Balance				
Reserve for Inventories	15,620			
Unreserved Fund Balance		72,374		
Total Fund Equity	15,620	72,374		745,408
Total Liabilities and Fund Balance	$58,656	$78,131	$4,546	$745,408

The accompanying notes are an integral part of the financial statements.

SWAN RIVER YOUTH FOREST CAMP
COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR FISCAL YEAR ENDED JUNE 30, 1981

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUE						
Rentals, Leases, Royalties	$ 100	$ 149	$ 49			
Sales of Merchandise				$ 18,316	$ 40,487	$ 22,171
Gifts and Donations				-0-	578	578
Federal Assistance	15,450	31,449	15,999	153,425	60,951	(92,474)
Total Revenues	15,550	31,598	16,048	171,741	102,016	(69,725)
EXPENDITURES						
Non-Treasury Expenses				-0-	19,091	(19,091)
Care and Custody	623,525	619,755	3,770	99,710	90,160	9,550
Total Expenditures	623,525	619,755	3,770	99,710	109,251	(9,541)
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(607,975)	(588,157)	19,818	72,031	(7,235)	(79,266)
Prior Year Adjustments - Revenue				7,296	7,296	-0-
Prior Year Adjustments - Expenditures	3,371	3,371	-0-	204	204	-0-
OTHER FINANCING SOURCES (USES)						
Support From (To) General Fund	604,604	584,786	19,818	-0-	-0-	-0-
Inventory Adjustment	-0-	-0-	-0-	27,465	27,465	-0-
Total Other Financing	604,604	584,786	19,818	27,465	27,465	-0-
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	106,996	27,730	(79,266)
FUND BALANCE JULY 1, 1980	-0-	-0-	-0-	12,317	12,317	-0-
Adjustment				9,429	9,429	-0-
Adjusted Fund Balance July 1, 1980				21,746	21,746	-0-
FUND BALANCE JUNE 30, 1981	$ -0-	$ -0-	$ -0-	$128,742	$ 49,476	$(79,266)

The accompanying notes are an integral part of the financial statements.

SWAN RIVER YOUTH FOREST CAMP
COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUE						
Rentals, Leases, Royalties	$ 100	$ 125	$ 25	$ -0-	$ -0-	$ -0-
Sales of Merchandise				21,215	46,852	25,637
Gifts and Donations				-0-	446	446
Federal Assistance				84,564	82,432	(2,132)
Total Revenues	100	125	25	105,779	129,730	23,951
EXPENDITURES						
Non-Treasury Expenses				-0-	22,098	(22,098)
Care and Custody	695,693	676,570	19,123	128,207	115,672	12,535
Total Expenditures	695,693	676,570	19,123	128,207	137,770	(9,563)
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(695,593)	(676,445)	19,148	(22,428)	(8,040)	14,388
Prior Year Adjustments - Revenue				2,827	2,827	-0-
Prior Year Adjustments - Expenditures	566	566	-0-	113	113	-0-
OTHER FINANCING SOURCES (USES)						
Support From (To) General Fund	695,027	675,879	19,148	-0-	-0-	-0-
Inventory Adjustment	-0-	-0-	-0-	7,531	7,531	-0-
Transfer From Alcohol Funds	-0-	-0-	-0-	20,467	20,467	-0-
Total Other Financing	695,027	675,879	19,148	27,998	27,998	-0-
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	8,510	22,898	14,388
FUND BALANCE JULY 1, 1981	-0-	-0-	-0-	49,476	49,476	-0-
FUND BALANCE JUNE 30, 1982	$ -0-	$ -0-	$ -0-	$ 57,986	$ 72,374	$14,388

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS). Accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenditures.

The following fund types are used:

General Fund - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes. This fund contains the earmarked, federal and private revenue entities, canteen and craft funds at Swan River Youth Camp. Legislative appropriation is required to spend from this fund.

Trust and Agency Fund - accounts for assets held in trust or as an agent by the department for others. A legislative appropriation is not required to spend from this fund.

General Fixed Assets Account Group - accounts for all buildings and equipment of the camp. Fixed assets are valued at cost. Historical cost was not available for approximately 10 percent of the fixed assets; the value for these assets is estimated. No depreciation is recorded on general fixed assets.

B. Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting,

revenues are recorded when received in cash, unless susceptible to accrual or deferral, and expenditures are recorded when a valid obligation is incurred. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

With the following exceptions to the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred:

--The liability amount associated with unused accumulated vacation and sick leave at June 30, 1982 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates. Upon termination, qualifying employees are paid at their current pay rate for 100 percent of accumulated vacation and 25 percent of unused sick leave.

--If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

--The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

--Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

C. Vacation and Sick Leave

Employees accrue eight hours of sick leave and ten hours of vacation leave each month. Vacation leave accrual rates increase after ten years of service. In the event of termination, an employee is paid for 100 percent of accumulated vacation and

25 percent of accumulated sick leave. Accumulated vacation and sick leave monetary liability is not calculated until an employee terminates and is not readily determinable at June 30, 1982.

D. Inventories

Supply inventory in the general fund is comprised of food and janitorial supplies. The inventory in the special revenue fund consists of educational materials purchased with grant funds and items for resale - such as clothing, hygiene articles, and crafts. Inventories are valued using the first-in, first-out valuation method. Inventories are expensed at the time of purchase.

2. PENSION PLAN

The Camp employees are covered by the Public Employees' and Teachers' Retirement Systems. In fiscal year 1980-81 the state contributed 6.2 percent and in fiscal year 1981-82 6.32 percent of an employee's gross wages to the Public Employees' Retirement System, and the employee contributed 6 percent of his gross wages to the plan. With regard to the Teachers' Retirement System, the state contributed 6.312 percent in fiscal year 1980-81, 6.432 percent between July 1 and September 30, 1982, and 6.463 percent the remainder of fiscal year 1981-82 of an employee's gross wages, while the employee contributed 6.187 percent of his gross wages to this plan. The agency incurred pension costs of $23,978.91 during the fiscal year ended June 30, 1981 and $27,375.27 during the fiscal year ended June 30, 1982.

The state's policy is to fund accrued pension costs. At June 30, 1982 the Public Employees' Retirement System was actuarially sound, while the Teachers' Retirement System was actuarially

sound at June 30, 1981. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plans employed by the youth camp.

3. INSURANCE

Swan River Youth Forest Camp is covered under the statewide insurance plan administered by the Department of Administration.

4. BUDGET INFORMATION

A fixed annual basis of budgeting is utilized. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the Legislature. Appropriations control financial operations during each fiscal year. At the end of each year, General Fund and Special Revenue Fund appropriation authority reverts to the fund of original appropriation. The reverted appropriation authority may be used in the subsequent year as authorization for valid prior year obligations. Budget amendments represent the authorization to spend funds not available for consideration by the Legislature. They are subject to approval of the Governor.

5. NON-SBAS FUNDS

The camp's activity for the canteen, gifts and donations, boxing fund, and craft account are not reflected on SBAS. The Special Revenue Fund on the financial statements have been adjusted to reflect the revenues, expenditures, and cash balances of these funds at June 30, 1982. This activity was not budgeted by the Legislature.

6. FEDERAL BOARDER REIMBURSEMENT

The camp collects money for housing federal prisoners. The fiscal year 1980-81 collections of $31,449 were recorded in the Special Revenue Fund during the year. At fiscal year-end 1980-81 revenue was recorded by the Department of Institutions, Central Office. The financial statements have been adjusted to record this revenue in the camp's General Fund.

The federal boarder collections and corresponding expenditures are shown in the Special Revenue Fund during fiscal year 1981-82.

7. ADJUSTMENT TO BEGINNING FUND BALANCE

The Special Revenue Fund balance shown on SBAS for July 1, 1980 was $12,317, an adjustment of $9,429 was made. The adjustment consists of the following:

$5,883	-	book June 30, 1980, non-treasury cash balance
3,546	-	record federal boarder revenue which should have been accrued at June 30, 1980
$9,429	-	total adjustment

SWAN RIVER YOUTH FOREST CAMP

SCHEDULE OF FEDERAL SUBGRANTS

FISCAL YEARS ENDING JUNE 30, 1981 AND 1982

Subgrant From	Grant Number	Receipt for Fiscal Year 1980-81	Receipt for Fiscal Year 1981-82
Montana Office of Public Instruction			
- U.S. Department of Education			
--ESEA Title I	81-42-6008-2470A	$13,507.00	
--ESEA Title I	82-42-6008-3470A		$10,479.00
--Multi-Occupations Proj.	80-6008-03-20-16-0001	7,296.22	
--Multi-Occupations Proj.	81-6008-03-20-16-D201	28,204.00	1,802.24
--Handicapped	81-6008-04-19-16-H210	4,368.75	1,035.22
--Handicapped Program Grant (Voc. Ed)	82-6008-05-16-P228		21,829.00
- Agriculture			
--School Nutrition	0920-6008	12,915.98	17,224.93
Montana Department of Labor & Industry			
- U.S. Department of Labor			
--CETA-PSE	328-0-8709	2,381	

This schedule is prepared recording receipts on the cash basis. The schedule does not include funds received from the federal government for housing federal boarders at SRYFC. Because of the differences in accounting methods and boarder payments, items on the schedule may not agree to amounts included in the financial statements as Federal Assistance.

AGENCY RESPONSES

DEPARTMENT OF INSTITUTIONS

TED SCHWINDEN GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 449-3930

HELENA, MONTANA 59620

April 7, 1983

RECEIVED
APR 11 1983
MONTANA LEGISLATIVE AUDITOR

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Members of the Committee:

We have reviewed the comments section of the audit report for Swan River Youth Forest Camp.

The report provides a very welcome service and is sincerely appreciated. The response to your recommendations is attached.

Sincerely,

CARROLL V. SOUTH
Director

CVS:bt

Attachment

RECOMMENDATION #1: We recommend the Department of Administration approve custodian accounts only for non state moneys.

RESPONSE: The Department of Administration will respond to this recommendation.

RECOMMENDATION #2: We recommend the Camp obtain Department of Administration approval for state funds held outside the treasury.

RESPONSE: Concur. The Youth Camp will update approval for monies held outside the treasury.

RECOMMENDATION #3: We recommend the Camp:

A. Deposit all state revenues in the state treasury on a timely basis.
B. Establish a contingent revolving fund and replenish it only by treasury warrant.
C. Budget and obtain appropriation authority for all expenditures of state funds.

RESPONSE: A. Concur
B. Concur. A contingent revolving fund will be established July 1, 1983.
C. Concur.

RECOMMENDATION #4: We recommend the Camp:

A. Follow Department of Institutions' housing policy and obtain a written lease agreement from each employee.
B. Charge a fair market value rent for the trailer spaces allowing for appropriate rental discounts for services provided.
C. Install electric meters at each trailer pad and charge tenants for electricity.

RESPONSE:

A. Concur.

B. Do not concur. A housing unit located on the grounds of an institution can not be compared to the same housing unit located in a population center, for the purposes of determining fair market rental value. Our housing policy should recoup all General Fund expenditures for maintenance of state owned housing and utilities in order that General Fund not subsidize housing units at our institutions.

C. Concur, partially. We will work with the utility company in an attempt to have electric meters installed. We would prefer that the utility company install the meters and bill the tenants.

RECOMMENDATION #5: We recommend the Camp:

A. Review prior school foods reimbursement billings and return unallowable reimbursement.
B. Exclude residents who have passed the GED from future school lunch and breakfast billings.

RESPONSE: A. Concur.
B. Concur. Implemented as of March 1, 1983.

RECOMMENDATION #6: We recommend the Camp properly classify and record buildings, improvements, and construction in progress on its property accounting records.

RESPONSE: Concur.

RECOMMENDATION #7: We recommend the Camp establish adequate physical and accounting controls over equipment.

RESPONSE: Concur. The Youth Camp plans to implement the PAMS system before the end of FY 84.

RECOMMENDATION #8: We recommend the Camp establish inter-entity loans when the special revenue fund has insufficient cash to pay for reimbursable expenditures.

RESPONSE: Concur.

RECOMMENDATION #9: We recommend the Camp recognize revenue in accordance with generally accepted accounting principles.

RESPONSE: Concur. We will accrue anticipated revenue to the fiscal year it is earned.

RECOMMENDATION #10: We recommend the Camp retain daily population lists to support their reported census figures.

RESPONSE: Concur. Implemented.

RECOMMENDATION #11: We recommend the Camp:

A. Reconcile cash collected in the canteen and at the clothing store to the appropriate log.
B. Ensure the canteen/clothing store manager receives a receipt each time money is deposited.
C. Obtain and retain a resident purchase order and a vendor's invoice for each disbursement from the resident's account.
D. Retain resident clothing cards until after the audit period.

RESPONSE: A. Implemented - self explanatory.
B. Implemented - self explanatory.
C. Implemented - self explanatory.
D. Implemented - self explanatory.

DEPARTMENT OF ADMINISTRATION
ACCOUNTING DIVISION

TED SCHWINDEN GOVERNOR

ROOM 255, MITCHELL BUILDING

STATE OF MONTANA

(406) 449-3092

HELENA, MONTANA 59620

April 18, 1983

Mr. Robert R. Ringwood
Legislative Auditor
Capitol Station
Helena, MT 59620

Dear Mr. Ringwood:

In accordance with your request, we submit the following response to the recommendation included in the audit report of the Swan River Youth Forest Camp.

Recommendation #1

We recommend the Department of Administration approve custodian accounts only for non state moneys.

Response

We concur.

Sincerely,

Morris Brusett

Morris L. Brusett
Director